



SPEAKER ANNOUNCES OVERSIGHT HEARINGS

Steinberg group will question PUC, utilities

If long-term electricity contracts at fixed prices are a path out of the power crisis that the state's two major utilities say nearly bankrupted them, then why didn't those utilities take that route months or years ago? The answer, depending on who's talking, is either miscalculation by the utilities or the stifling autocracy of the California Public Utilities Commission. Records and interviews show that it is both.

Assembly Speaker Robert M. Hertzberg, D-Van Nuys, announced Monday that the state Assembly will begin oversight hearings this week on California's energy situation.

"We have taken the first steps to protect consumers from the immediate crisis," said Speaker Hertzberg. "Now it's time to get to the heart of the matter: where did the money go, and who was safeguarding the public interest?"

On a preliminary basis, the hearings will be conducted by the Committee on Energy Costs and Availability's Subcommittee on Energy Oversight, chaired by Assemblymember Darrell Steinberg, D-Sacramento. Staff support for the hearings will be provided by the Speaker's Office of Oversight.

"Our task is to sift through the facts, determine how we got in this predicament and assist with compiling the information we need to make sure that Californians do not find themselves in this situation again," said Steinberg.

Speaker Hertzberg tapped Assemblymember Steinberg to lead these hearings in part because Steinberg played a key role in oversight hearings last summer which led to the resignation of former Insurance Commissioner Chuck Quackenbush.

The hearings, which will begin Wednesday, will first focus on the activities of the California Public Utilities Commission in the years since deregulation of the state's investor-owned utilities was ordered in 1996.

The next two days of hearings will focus on the activities of the two investor-owned utilities, Pacific Gas and Electric and Southern California Edison, which claim to be teetering on the brink of bankruptcy.

"We owe it to the public to examine closely the activities of both the utilities and their regulators," Speaker Hertzberg said. "I'm confident that Assemblymember Steinberg and his subcommittee will help us find out what went wrong, and why."

ENERGY LEADERSHIP POINTS

- With the passage of AB 1X, we have taken the first critical step to protect consumers by restoring reliable, reasonably priced power to California.
- The next step is to get the answers the public wants and deserves.
- Where did the money go? Who was safeguarding the public interest? How do we make sure nothing like this ever happens again?
- The Assembly will convene oversight hearings this week focusing on the actions of investor-owned utilities and the Public Utilities Commission.
- Oversight will help us find out what went wrong, and why. What we learn will help us find long-term solutions.
- In addition, the Assembly's Special Session Policy Committees will begin to consider measures aimed at increasing supply, decreasing demand and reforming the marketplace.
- We will ensure that we wring every megawatt out of the existing system, carefully add capacity where needed, and bolster conservation efforts.
- We are focused on this issue--and are working day and night to address it--because the future of our state is at stake.

GOVERNOR SEIZES PG&E CONTRACTS

Seeking to stabilize California's wild energy market, the governor Monday seized millions of dollars in utility electricity contracts.

Gov. Gray Davis used emergency authority to claim at least \$150 million in Pacific Gas and Electric Co. power contracts, just before they would have been taken by creditors.

The PG&E options to buy long-term power were held as collateral by the California Power Exchange, the state's electricity marketplace. PG&E defaulted on payments to the exchange, and the PX wanted to sell the contracts.

The Davis administration will reimburse the Power Exchange for the PG&E contracts, Deputy Attorney General Ken Alex said. A price was under negotiation.

Davis on Friday used the same authority granted under a state of emergency he declared last month to seize about \$300 million in Edison contracts. The exchange wanted to sell them after the utility defaulted on a \$215 million payment.

BURTON PURSUING UTILITY ASSETS

Senate leader John Burton plans to introduce legislation this week allowing the state to take over California's \$4 billion private electricity-transmission system in exchange for the help lawmakers have given the financially starved utilities, saying it's a fair price to help the utilities avert bankruptcy.

"The transmission lines are like the interstate highway system," Burton said. "It's what all the electricity travels on."

Controlling those, he said, would enable the state to blunt the influence of the Federal Energy Regulatory Commission on California's electricity system, he said.

And the state could charge transmission fees, "which give you a chance to pick up some money from the generators."

Burton said he doesn't know what the state would have to pay the utilities for the system, but that some estimates have been lower than the \$4 billion most often cited.

Gov. Gray Davis and legislative leaders have made it clear that the utilities must give up some valuable assets in exchange for the state's financial assistance.

Three possibilities have surfaced: taking over the transmission lines, acquiring SCE and PG&E hydroelectric plants or getting long-term stock options in the utility companies.

Serious questions have been raised about whether the state can constitutionally acquire the stock options.

DAVIS' CONSERVATION, SUPPLY PLANS

Governor Gray Davis has unveiled \$800 million in programs to cut 3,700 megawatts of consumption, equal to the output of nearly eight large power plants.

Among the proposals, some of which are contained in a pending bill, SB 5X, are plans to:

- Spend \$20 million on a statewide advertising campaign urging Californians to save energy and to shift energy-intensive activities, such as washing clothes, to after 7 p.m. Nearly half of the megawatt savings are expected to be generated by this campaign.
- Spend \$75 million on rebates to consumers who buy energy-efficient appliances.
- Spend \$155 million on demand-reduction programs that pay businesses not to use electricity.

Gov. Gray Davis will make another proposal this week to get more power generators online by next summer, when the demand for electricity shoots up with the temperature. The governor said he was on the telephone last week with uneasy Silicon Valley executives, assuring them that California will have new generation ready by the time the heat goes up.

GAS SUPPLIES RUNNING OUT?

As the clock ticks toward the expiration of an emergency federal order forcing natural-gas suppliers to sell to California utilities, PG&E is urgently trying to line up deals to keep gas flowing. The stakes are high. If suppliers cut off gas, hundreds of thousands of homes and small businesses would be without heat or hot water. Lack of gas could disrupt generation of electricity.

In their search for the causes of skyrocketing natural gas prices, California officials are focusing on a 1996 meeting in Phoenix where a group of high-ranking gas pipeline industry executives discussed "opportunities" arising from the newly deregulated electricity market.

11 officials from El Paso Natural Gas Co., Southern California Gas and San Diego Gas & Electric agreed to kill pipeline projects that would have brought more and cheaper gas into California, according to filed allegations.

The companies have denied any wrongdoing. They say California is the victim of its own soaring electricity demand and overreliance on fluctuating spot markets.

El Paso has sold about 40% of that pipeline capacity to its trading arm, El Paso Merchant Energy. And therein lies the problem, critics say. By hoarding pipeline space during critical periods, El Paso Merchant Energy is pushing up spot prices.

"What we are seeing is high gas prices that cannot be attributed to the cost of gas but the ability of El Paso to... manipulate prices," said PUC attorney Harvey Morris.

PRICE CAPS

Despite Bush opposition, eight out of 11 Western governors, most of whom are Republicans, say they want wholesale prices for electricity capped throughout the region. That sentiment could become unanimous if drought conditions persist into spring, constricting hydroelectric output and threatening the rest of the West with blackouts.

ENERGY COMPANY PROFITS

Power companies rocketed past other U.S. industries last year, boosted by profits from soaring electricity prices that left California utilities nearly broke and consumers bracing for higher bills. While the Dow Jones Industrial Average fell nearly 5 percent, unregulated companies that now own a third of California's power generation, as well as out-of-state utilities and electricity traders, have reported gains of several hundred percent in 2000 earnings.

WHO SHOULD PAY MORE?

It was California's large industrial consumers leading the charge to deregulate the electricity market four years ago.

Today that role is coming back to haunt them.

Lawmakers are moving in to shield small, residential consumers - and some small businesses - from the volatile energy market with new rate schemes that could leave the largest energy users with the steepest rate increases.

"If I were the king of California for a day," said Assemblyman Fred Keeley, one of the architects of the Legislature's energy-reform effort, "...the people who would have to pay would be the largest users - who pushed deregulation in the first place."

And, indeed, Keeley's AB 1X, signed into law last week, protects residential consumers who use the least amount of energy from any PUC rate increases.

Assemblyman Rod Wright, D-Los Angeles, views any punitive strikes against energy users with contempt.

"That's good - so then you can have a whole lot of people with no job. That's a great idea," said a sarcastic Wright, chairman of the Assembly Energy Committee.

SAN ONOFRE FIRE

A reactor at the San Onofre nuclear power plant that can provide energy for 1.1 million homes will be unusable for several weeks after an electrical fire Sunday afternoon. No radiation was released and no one was injured. The No. 3 reactor, off-line since Jan. 2 for maintenance, had been put back in service but shut off automatically when an electrical short caused a fire.

PICKING OFF BUSINESSES

It's come full circle. Five years ago, civic leaders promoted energy deregulation as a way to lower power costs and prevent businesses from fleeing the state. Now other states are using deregulation -- and the high prices and blackouts it has helped bring -- to urge businesses to leave California.